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The AAA and Exports of the South

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INTRODUCTION

WHEN THE Roosevelt Administration came to power in 1933 it was confronted by a grave agricultural crisis. Throughout the depression farmers had continued to produce in almost undiminished volume while consumption was declining. Their inability to follow the example of industry in curtailing production[1] had brought about serious maladjustments. Prices of farm commodities had fallen far below those of industrial products,[2] and the farmer's share of the national income had dropped from 10.4 per cent in 1929 to 7.5 per cent in 1932.[3] To correct this situation the Agricultural Adjustment Act was passed and approved by the President on May 12, 1933. Its chief aim was to assist farmers in reducing their output and raising their prices. The production control features of the Act were designed particularly for export commodities such as wheat, corn and hogs, cotton and tobacco. The foreign market for these products had been severely curtailed, partly as a natural outcome of the depression and partly as a result of the commercial policy pursued by the United States. The Administration, while stressing the necessity of reviving international trade as an ultimate remedy, was convinced that measures in that direction could not be immediately effective. In the meantime it sought to restrict farm production to such an amount as could be sold at remunerative prices.

1. By February 1933 agricultural production had declined only 4.6 per cent, while factory output had decreased 48.7 per cent. Cf. M. Ezekiel and L. N. Bean, *Economic Bases for the Agricultural Adjustment Act* (Washington, Government Printing Office, 1933), p. 4. Unlike the industrialist, the farmer makes no great saving when he reduces production. Because a large part of his costs—taxes and interest charges—remains fixed and labor is furnished almost entirely by himself and his family, he continues to cultivate his entire farm rather than remain idle.

2. From February 1929 to February 1933 wholesale prices of agricultural commodities had declined 61.2 per cent and those of other products only 28.2 per cent. *Ibid.*, p. 4.

3. Cf. Department of Agriculture, *The Agricultural Situation*, February 1935.

The South, largely agricultural and depending for its prosperity on two staples which enter extensively into American export trade, offers perhaps the best proving ground for the AAA. Yet opinion regarding the effect of the agricultural adjustment program on the South is far from unanimous. It is generally recognized that the immediate benefits have been substantial. The farmer's income from cotton and tobacco has more than doubled since 1932. Recovery has made more progress in the South than elsewhere, and Carolina tobacco growers are enjoying a prosperity greater than in 1929. A large portion of the population, however, has not participated in the benefits of the AAA. The tenants, who constitute about 60 per cent of the farmers, have had to bear the brunt of the reduction in output, while the landlords have pocketed the major share of the compensation paid out by the government. Many share-tenants and laborers employed in the growing and handling of cotton have even lost their means of livelihood. The possible long-run effects of the AAA program have aroused the most concern. Short crops and higher prices tend to stimulate production of cotton and tobacco abroad, thus endangering the foreign market on which the South has relied in the past for the sale of a large part of its agricultural output. Exports of cotton have already fallen off sharply and those of tobacco have begun to decline. Since domestic consumption of cotton has also decreased, fear is frequently expressed that the "emergency" which led to the adoption of crop control will perpetuate itself automatically and necessitate a permanent system of "subsidized scarcity."

Some knowledge of the method of production control is essential before its operation can be fully understood. The Agricultural Adjustment Act authorized the Secretary of Agriculture to enter into contracts with farmers providing for reductions in the acreage or production of any "basic" agricul-

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tural products. As an inducement, farmers who agreed to sign such contracts were offered subsidies known as rental or benefit payments. Production was to be limited until prices attained "parity"—a level which would give them a purchasing power equal to that of the pre-war period August 1909-July 1914, when agricultural and industrial output were relatively well balanced and little unemployment existed. To obtain the funds necessary for the benefit payments, the Secretary of Agriculture was empowered to levy taxes on the first domestic processing of the commodities affected, at rates determined by the difference between the current farm price and the parity price. The taxes paid on products subsequently exported were to be refunded.

THE COTTON PROGRAM

Immediately after the passage of the Agricultural Adjustment Act the Administration singled out the cotton problem as the one most urgently requiring attention. The farmers' income from cotton had declined precipitately from $1,535,455,000 in 1928 to $483,912,000 in 1932.[4] During the same period the carry-over of American cotton rose from 5,114,000 to 12,960,000 bales, an amount nearly equivalent to the total annual world consumption. Prices had slumped from an average of 18 cents a pound in the crop year 1928-29 to a record low of 4.6 cents in June 1932.[5]

Although the acreage planted to cotton in 1932 was 17.8 per cent less than the 1929 total, a partial recovery in prices and a general expectation of business improvement led farmers to expand their plantings by 12 per cent in the spring of 1933.[6] Anticipating that this increased acreage would yield a crop well in excess of current consumption, the Administration immediately launched a campaign to plow under a part of the growing cotton. Growers were asked to take out of production not less than 25 nor more than 50 per cent of their acreage. For every acre thus eliminated from production they could secure in compensation either a cash payment, varying according to the estimated yield of the land, or a smaller cash benefit plus an option to buy from the Secretary of Agriculture, at 6 cents a pound, an amount of cotton equivalent to the prospective yield of the acreage plowed under. The cotton on which options were granted had been acquired by the government primarily through the stabilization purchases of the old Federal Farm Board. Since prices soon rose well above 6 cents, farmers who took such options could exercise their right to purchase and resell the cotton in the market at a profit.

The Administration was successful in removing from production about 10.4 million acres, which would probably have yielded 4,217,000 bales of cotton.[7] Nevertheless, owing to the original increase in plantings and very favorable weather conditions, the harvest in 1933 equalled the crop of 13 million bales of the year before. Cotton prices, however, improved to 10 cents a pound, and the aggregate farm value of the crop increased to $717,007,000 from a total of only $483,912,000 in 1932. In addition, farmers received $163,090,258 in cash rental payments and profits on cotton options. If the American crop had not been reduced by over 4 million bales, the actual prices received by the farmer might have been about 30 per cent less.[8]

THE BANKHEAD ACT

Because the carry-over at the beginning of the 1933-34 season had been reduced by only little more than a million bales and prices were still far from parity, the AAA decided to restrict 1934 plantings to 25 million acres—40 per cent below the average planted during the five-year base period 1928 to 1932. In the fall of 1933 cotton farmers were accordingly offered a two-year contract entitling the Secretary of Agriculture to curtail their base acreage by 35 to 45 per cent in 1934 and by 25 per cent in 1935.

Although slightly more than a million farmers, representing 87.8 per cent of the acreage planted in the period 1928 to 1932, agreed to cooperate with the AAA program, it was feared that non-contracting farmers would take advantage of higher prices and increase their production sufficiently to nullify the reduction effected by the others. To guard against this possibility, the Bankhead Cotton Control Bill was passed by Congress and approved by the President on April 21, 1934.[9] This Act fixed a cotton production quota of 10,460,125 bales[10] for 1934, provided for the apportionment of this quota among the individual states, counties and farmers, and levied a prohibitive tax equal to 50 per cent of the average spot cotton price on the

4. *Yearbook of Agriculture, 1934*, p. 459.

5. U. S., Department of Agriculture, *Agricultural Adjustment, a Report of Administration of the Agricultural Adjustment Act May 1933 to February 1934* (hereinafter cited as *Agricultural Adjustment*), p. 21.

6. Cf. Henry I. Richards, *Cotton under the Agricultural Adjustment Act* (Washington, The Brookings Institution, 1934), p. 64-5.

7. *Ibid.*, p. 35.

8. *Ibid.*, p. 67-68.

9. H.R. 8402.

10. A bale, as used throughout this report, equals 478 pounds net. The Bankhead Act actually fixed a quota of 10,000,000 five-hundred-pound bales.

ginning of any quantity produced in excess of allotments. Each grower was to be issued tax exemption certificates covering his quota.[11]

In the first year of compulsory crop control, production fell to 9,731,000 bales—the smallest crop since 1901. Without the severe drought in the Western cotton areas the total might have been considerably in excess of the Bankhead quota, for the output of Texas and Oklahoma was almost three million bales less than in 1933. The farm value of this small crop exceeded slightly that of 1933 and, with the addition of benefit payments, the aggregate income of the growers was only a little less than in the previous year. The supply of American cotton at the beginning of the 1934-35 season totaled only 20,077,000 bales, compared to 25,961,000 two years ago.

FARMERS' INCOME FROM COTTON 1932-1934[12]

Year	*Farm Value*	*Benefit Payments*	*Total Value*
1932	$483,912,000	....	$483,912,000
1933	717,007,000	163,090,258	880,097,258
1934	756,420,000	116,686,371	873,016,371

The Bankhead Act provided for the continuation of compulsory limitation in 1935 if the Secretary of Agriculture found that two-thirds of the farmers favored it. After the Act had received an apparently overwhelming endorsement[12a] in a referendum held in December, Secretary Wallace announced on January 17 that the Bankhead quota for 1935 would be 10,983,264 bales. Since tax exemption certificates for 700,000 bales remained unused in 1934, the total tax exempt production for the present year may reach almost 11,700,000 bales,[13] or about 12 per cent more than the 1934 quota. The Administration anticipates that the 1935 program will be sufficient to lower the carry-over on August 1, 1936 to a figure not far above normal.

COTTON LOAN POLICY

Farmers have not been content with the rise in prices resulting from curtailment of production. In September 1933, when cotton was bringing little more than 9 cents a pound, the South began to clamor for additional inflationary measures and the establishment of a minimum price of 15 cents. In response to this demand the Administration agreed in October to make loans on cotton at 10 cents a pound and assume the risk of any losses sustained in such a venture. The announcement of this policy was therefore equivalent to a price guarantee. The Commodity Credit Corporation, especially organized for the purpose, advanced loans on 1,925,000 bales of the 1933 crop. Since prices subsequently rose well over 10 cents, most of these loans were liquidated, so that by January 1935 the amount still outstanding covered only 157,828 bales. When the 1934 crop came on the market, the AAA yielded to a widespread demand that the loan rate be raised to 12 cents. By the end of January 1935 the Corporation had extended 12-cent loans on 3,651,465 bales, and the possibility existed that the total might ultimately reach four million. It has made similar advances on about 1,600,000 bales of the original option cotton which has not been sold. By means of its loan policy the government is therefore withholding from the market about 5,500,000 bales of cotton.[14]

DISPLACEMENT OF AMERICAN COTTON ABROAD

While its income from cotton has almost doubled in the last two years, the South faces the risk of losing a considerable share of the world market as a result of the Administration's cotton program. Because prices of American cotton have advanced more rapidly than those of Indian, Egyptian, Brazilian and other competing cottons, foreign consumption of the American product has shown a marked tendency to decline and production abroad has been stimulated. The importance of this development for the South can hardly be overestimated, since more than half of the cotton crop is normally sold abroad. In the period 1920 to 1930 net exports of cotton from the United States constituted 53.5 per cent of American production and accounted for 22,145,000 acres of crop land.[15]

Since the beginning of the current marketing season on August 1, 1934 exports have fallen off considerably. Up to April 5, 1935 shipments were 2,487,384 bales, or 40.6 per cent less than during the same period of the previous season and 41 per cent less than two years ago. This decline is by no means entirely attributable to the displacement of American by foreign cotton. The sharp reduction in the

11. For a more detailed analysis of the provisions of the Act, cf. David F. Cavers, "Production Control by Taxation," *Law and Contemporary Problems,* June 1934.

12. United States, *Hearings before the Committee on Agriculture and Forestry of the United States Senate on the Causes of the Loss of Export Trade and the Means of Recovery* (hereinafter cited as Senate Agriculture Committee, *Hearings on Exports*), 74th Cong., 1st Sess., p. 367.

12a. More than 60 per cent of the eligible farmers voted 9 to 1 in favor of the Act. Cf. AAA, *News Digest,* December 22, 1934.

13. *Commercial and Financial Chronicle,* January 19, 1935, p. 492. Farmers who signed acreage control contracts are required to effect a reduction of 25 per cent in their base acreage instead of 40 per cent as in the year before, but will be paid benefits for any extra curtailment up to 35 per cent. Cf. AAA, *News Digest,* December 1 and 8, 1934, and January 19, 1935.

14. Cf. Statement by Oscar Johnston, Manager of the Cotton Producers' Pool, Senate Agriculture Committee, *Hearings on Exports,* cited, p. 84-7.

15. A. A. Dowell and O. B. Jesness, *The American Farmer and the Export Market* (Minneapolis, The University of Minnesota Press, 1934), p. 74.

imports of Germany and smaller decreases in exports to a few other countries can be directly traced to the difficulties experienced by these states in finding the foreign exchange necessary to pay for purchases. It cannot be denied, on the other hand, that prices of American cotton have been so high during the current season that European mill-owners found it more advantageous to buy foreign growths.[16] With the decline of American stocks in Europe and some diminution in the supply of foreign cotton, the price disadvantage of American cotton has tended to diminish in the first months of 1935, so that exports for the remainder of the 1934-35 season will probably be larger. The total will nevertheless be appreciably lower than in the previous year.

AMERICAN COTTON EXPORTS, AUGUST 1-APRIL 5[17]
(*in thousands of bales*)

Destination	*1932-33*	*1933-34*	*1934-35*
Great Britain	1,077	1,089	605
France	711	693	313
Germany	1,378	1,241	322
Italy	616	563	393
Japan	1,330	1,474	1,276
China	251	232	88
Other	802	831	640
TOTAL	6,166	6,124	3,637

The extent to which foreign cotton has been substituted for the American product is seen from a comparison of consumption figures. During the first half of the 1933-34 season the increase in the price of American cotton was offset by the devaluation of the dollar, but with a further price rise in the following half-year world consumption of American growths declined by 848,000 bales, while the use of foreign cotton rose 736,000 bales over the amount consumed in the same period of the previous year. In the first six months of the current season the situation became still worse, the consumption of American cotton dropping off 1,217,000 bales from the level of the corresponding period the year before, and that of foreign cotton increasing by 899,000 bales.[18] The Administration expects the total consumption of American cotton in 1934-35 to be about 1.5 million bales less than a year ago.[19]

Officials of the AAA do not appear greatly alarmed about the position of American cotton in the world market. In their opinion, farmers are obtaining the largest possible income at the present volume of production and exports, and there is nothing to be gained by additional exports at a lower price. In justification they can point to the fact that, despite the smaller volume of shipments, cotton exports during 1933 and 1934 were actually somewhat greater in value.[20] This condition is likely to persist, however, only if foreign countries do not increase their production to compensate for the decline in the United States, for otherwise world prices may return to previous low levels.

RISE IN FOREIGN PRODUCTION

Foreign production of cotton has shown a decided upward trend since the war. In the early twenties the boll weevil scare in the United States imparted a powerful stimulus to the growing of cotton abroad, the foreign output increasing about 4 million bales from 1921-22 to 1924-25. Even though the United States overcame the boll weevil menace and recovered its normal output, foreign production was maintained at about 11,500,000 bales until the depression years 1931-33, when it dropped about a million bales. In 1933-34 foreign output leaped by 2,350,000 bales. This enormous increase can hardly be ascribed to the American reduction program, since the AAA was not really effective in raising the world market price until 1934, and the planting season in most foreign countries was over even before the program was launched. Acreage extension abroad was apparently motivated by a general expectation of higher prices—the same factor which led American farmers to expand their plantings by about 12 per cent in the spring of 1933. Aided by generally favorable weather conditions, the enlarged acreage produced a record crop. The following season—1934-35—should have provided a real test of the effect of the AAA policies on foreign production, but the available estimates on the foreign crop are not conclusive. Production abroad for this season is estimated at 12,869,000 bales—

16. Testimony of Alston H. Garside, Economist of the New York Cotton Exchange, Senate Agriculture Committee, *Hearings on Exports*, cited, p. 143-4.

17. *The Commercial and Financial Chronicle*, April 6, 1935, p. 2384.

18. Cf. New York Cotton Exchange Service, *Weekly Trade Report*, February 25, 1935.

World Consumption of American and Foreign Cotton
(in thousands of bales)

Season	*American*		*Foreign*	
1931-32	12,506		10,501	
1932-33				
1st half	6,977	14,405	5,064	10,307
2nd half	7,428		5,243	
1933-34				
1st half	7,100	13,680	5,602	11,581
2nd half	6,580		5,979	
1934-35				
1st half	5,883		6,501	

19. Cf. table submitted by C. A. Cobb, Chief of the Cotton Section of the AAA, Senate Agriculture Committee, *Hearings on Exports*, cited, p. 365.

20. Exports were valued at $345,164,000 in 1932, $398,212,000 in 1933, and $372,755,000 in 1934.

about 184,000 bales less than the record crop of last year—although, had it not been for devastating drought and frost which reduced India's output by 584,000 bales, the total crop would have been larger than in the previous season. If the American program had not kept the world price from falling, foreign production might have returned to normal instead of being maintained at the high 1933 level.

WORLD COTTON PRODUCTION*

	Acreage 1,000 acres		Production (in thousands of bales)										
Year	*U. S.*	*Total Foreign*	*U. S.*	*Total Foreign*	*India*	*Egypt*	*China*	*USSR*	*Brazil*	*Peru*	*Mexico*	*Argentina*	*Anglo-Egyptian Sudan*
1921-2	28,678	28,322	7,945	7,455	3,752	902	1,514	43	504	186	147	17	20
1924-5	39,503	40,397	13,630	11,370	5,095	1,507	2,178	453	793	212	196	67	41
1927-8	38,349	37,851	12,956	11,044	4,990	1,261	1,875	1,096	509	246	179	115	111
1930-1	42,454	41,746	13,932	11,868	4,373	1,715	2,250	1,589	471	271	178	139	106
1931-2	38,705	42,295	17,095	10,405	3,368	1,323	1,785	1,843	575	234	210	169	206
1932-3	35,939	40,761	13,001	10,699	3,896	1,028	2,261	1,778	448	242	102	150	121
1933-4	29,978	44,422	13,047	13,053	4,197	1,777	2,726	1,887	969	276	260	200	135
1934-5	27,515	45,885	9,731	12,869	3,613	1,617	2,800	1,937	1,590**	....	209	....	196‡

*Bureau of Agricultural Economics, Department of Agriculture.
***New York Times*, April 14, 1935.
†*New York Times*, March 4, 1935.
‡*Foreign Crops and Markets*, cited, April 15, 1934.

The full effect of American policies will not be known for several years. Meanwhile, there are some unmistakable signs that a cotton boom is taking place in a number of foreign countries. During 1934, for instance, American exports of cotton gins and presses increased fivefold, attaining a total more than twice as high as the pre-depression average.[21] There are admittedly large areas in the world—mostly in the tropics—whose climatic and soil conditions are suitable for cotton growing.[22] In the tropics, however, inadequate transportation and marketing facilities, as well as a relative lack of labor, impose serious limitations on the expansion of cotton cultivation.

Brazil seems to possess the greatest possibility for expansion of cotton production. A minor boom has already started. Production in 1933-34 more than doubled, jumping to 968,715 bales from a total of 447,834 the year before; and in the current season it may mount as high as 1,600,000 bales. The government is actively promoting the cultivation of cotton; and American firms are reported to be providing the capital to build the gins, oil mills, compresses and warehouses necessary to an expansion in production.[23] Exports of ginning machinery to Brazil have also risen rapidly.[24]

Cotton is grown in two entirely different parts of Brazil: in the northeastern section, centering about Pernambuco, where the growing season coincides approximately with that of the United States; and in the south, particularly in the province of São Paulo, where cotton is planted in the fall and harvested the following spring. In both these regions the amount of virgin land that could theoretically be turned to cotton is immense.

In the northeast the cotton produced is apparently not of a good grade, consisting of a mixture of perennial and annual cotton, all of uneven staple and color. Extremely favorable weather conditions, together with an extension of acreage, produced a record crop of 753,000 bales in 1934, or 285,000 bales over the 1933 yield. A further rapid rise is scarcely to be anticipated. Rainfall is, on the whole, extremely variable and scarce, while the climate is too hot to encourage any increase in the inadequate labor supply.[25]

In Southern Brazil the climate is much more favorable and the labor supply larger. Here the low price of coffee in relation to cotton has stimulated production. The cotton grown appears to be of good quality. The crop of 500,000 bales produced in 1933-34 was more than double that of the previous season, and a preliminary estimate places the 1935 spring crop at 837,000 bales. A shortage of labor may very well retard expansion in the future, especially if, following an improvement in prices, coffee begins to compete for the limited labor supply.[26]

Among other cotton-growing areas in Central and South America, Peru and Mexico will prob-

21. Exports, which dropped from $490,000 in the period 1926-30 to $47,000 in 1932, rose to $211,000 in 1933 and to $1,014,000 in 1934. Cf. U. S., Department of Commerce, *Monthly Summary of Foreign Commerce of the United States*, December 1934, p. 15.

22. Cf. International Institute of Agriculture, *The Cotton Growing Countries, Present and Potential* (London, P. S. King & Son, 1926).

23. *Texas Weekly*, January 19, 1935, p. 3.

24. Cf. "Brazil's Cotton Raids America's Markets," *Sphere*, March 1934.

25. Cf. U. S., Department of Agriculture, *The Agricultural Outlook for 1935*, p. 39-40; also "Brazil's Cotton Raids America's Markets," cited.

26. *Ibid.*

ably not expand rapidly, for any extension of acreage depends on the provision of additional irrigation facilities. In Argentina production has been rising slowly, attaining 200,000 bales in 1934, compared to 150,000 the year before and only 17,000 in 1922. In the Chaco region of northern Argentina, growing conditions are good and, with favorable prices, a continuous advance in production may be anticipated. Lack of transportation facilities and labor scarcity continue, however, to be serious obstacles.[27]

In the newer crop areas in Africa no striking advance is likely to take place in the near future. The government in Uganda has for some years energetically encouraged the cultivation of cotton, but owing to the difficulty of getting the natives to work the rate of expansion cannot easily be accelerated. The Anglo-Egyptian Sudan for some time was believed to have great potentialities for cotton production. Since the war the government has been actively promoting cultivation through the construction of irrigation works and the organization of large syndicates to supervise the growing and marketing of the crop. Although the yield was raised to 205,982 bales in 1931-32, it has never surpassed that total. Unexpected difficulties, including disease and a yet unsolved drainage problem, have caused production to lag.[28]

Egypt, India, the Soviet Union and China have long been the leading cotton-growing countries outside the United States. In the first two no great expansion seems likely. The available crop area in Egypt is strictly limited. Although plans are being made to turn somewhat more than 2,000,000 acres of waste areas into arable land through the construction of extensive irrigation and drainage works, the execution of these projects will entail great cost and require from 10 to 20 years for completion.[29] In India the crop area devoted to cotton has so long remained constant, and agricultural habits are so firmly fixed, that no great change is to be expected. In the Soviet Union continued expansion of production is contemplated under the Second Five-Year Plan, but the rate of increase will probably not be rapid, for climatic conditions are not very favorable and yields per acre have shown a tendency to drop.[30] As for the Far East, production in China has been expanding. Last year's crop rose to 2,800,000 bales, about 539,000 bales more than two seasons ago. Possibilities for cotton growing are greatest in North China, but expansion is hampered by irregular rainfall and poor transportation facilities.[31]

Summarizing the foreign cotton situation, it would seem that the area grown to cotton can and will be considerably extended provided the world price of cotton remains favorable relative to that of other commodities. Even if the increase should be no more than one and a half million bales during the next three years, production outside the United States would then total about three million bales above the pre-depression level. Should American production return to its previous volume, the total world supply would be larger than ever before, and a glut on the market might well ensue. Past experience has shown that, once foreign production has grown, it becomes extremely difficult to force any reduction except by means of very low prices. That the Administration is not oblivious to the danger of increased foreign production is evident from its decision to seek an international agreement for the stabilization of world production and prices.[32] Even the most sanguine observers do not believe, however, that such an agreement can be achieved in less than a few years.

THE ABORTIVE BARTER AGREEMENT

The sale of American cotton abroad has been hampered not only by its price but by the inability of a number of consuming countries to obtain the foreign exchange necessary to pay for it. This is particularly true of Germany, whose takings of American cotton during the current season up to April 5 have fallen off 919,000 bales. To overcome these exchange difficulties George N. Peek, Special Adviser to the President on Foreign Trade and head of the Export-Import Banks, negotiated a tentative barter agreement with a group of German importers in the latter half of 1934. By this agreement the Germans undertook to buy 800,000 bales of cotton on the American market in the course of one year. Shippers from whom they bought the cotton were to receive 25 per cent of the purchase price in dollars and the remainder in marks. The second Export-Import Bank was to sell these marks on behalf of the shippers to Americans agreeing to use them exclusively for payment of goods imported from Germany, the nature of which the Bank was permitted to specify. Since it was unlikely

27. Cf. U. S., Department of Agriculture, *Foreign Crops and Markets*, February 11, 1935.

28. P. K. Norris, "Cotton Production in the Anglo-Egyptian Sudan," U. S., Department of Agriculture, F. S. 62, 1933.

29. P. K. Norris, "Cotton Production in Egypt," U. S. Department of Agriculture, *Technical Bulletin* No. 451, October 1934.

30. *The Agricultural Outlook for 1935*, cited, p. 39. It has usually been assumed that any increase in production would go into domestic consumption, but a recent dispatch from Moscow indicates that the Soviet Union expects to market abroad about 250,000 tons of the 1935 crop. Cf. *New York Times*, March 11, 1935.

31. *The Agricultural Outlook for 1935*, cited, p. 38.

32. Cf. *New York Herald Tribune*, February 14, 1935.

that the marks would find purchasers at par value, the Bank was allowed to sell them at a discount up to 40.9 per cent. In return, the price which the Germans agreed to pay for the cotton was fixed at 22.5 per cent above the market level—a premium sufficient to offset the loss on any discount in the sale of marks up to 24.5 per cent.[33]

The proposed agreement, however, aroused the opposition of the State Department and the interdepartmental Executive Committee on Commercial Policy, and with the approval of the President it was finally dropped. Government experts believed that it would have set a dangerous precedent and would have ultimately proved a great obstacle to the restoration of international trade. In their opinion any form of barter represented a concession to the erroneous idea that trade between any two countries must necessarily balance, when in fact commercial accounts are very often and most economically balanced by means of triangular or multilateral trading. Nor were they convinced that the agreement would bring about any considerable increase in cotton exports to Germany. Purchases might simply have been diverted from the regular commercial channels. Doubt was also expressed about the possibility of selling the marks at a discount that would not involve losses. Finally, the Treasury Department held that the importation of German goods bought with depreciated marks would probably violate the anti-dumping laws.[34]

While this country's exports of cotton have been declining, the amount consumed at home has also dropped. American mills increased their consumption to about 6,000,000 bales in the year ending July 31, 1933, but during the following season they used only 5,550,000 bales, and in the first seven months of 1934-35 their takings have averaged 7 per cent lower than in the corresponding period of the previous year.[35] According to the New York Cotton Exchange Service, "per capita consumption in the United States is at the lowest level since the 1931-32 season and, with this exception, is the lowest in many years."[36] The rise in the price of raw cotton, the addition of a processing tax of 4.2 cents a pound, and increased labor costs have all contributed to reduce domestic sales of cotton goods and brought distress to the cotton textile industry.[37]

33. For the text of the agreement, cf. Senate Agriculture Committee, *Hearings on Exports*, cited, p. 514-7.

34. Cf. testimony of Francis B. Sayre, Assistant Secretary of State, Senate Agricultural Committee, *Hearings on Exports*, cited, p. 574-9.

35. Department of Commerce, Bulletin 171, *Cotton Production and Distribution, Season of 1933-34;* also, New York Cotton Exchange Service, *Weekly Trade Report*, March 25, 1935.

36. *Weekly Trade Report*, March 11, 1935.

SOME SUGGESTED REMEDIES

Many observers believe that the benefits of the agricultural adjustment program will ultimately prove illusory unless steps are taken to raise both foreign and domestic consumption of American cotton.

Lower export prices would tend to forestall an increase in production abroad and stimulate foreign demand. Four methods of reducing prices can be considered. The first entails abandonment of the AAA program. Such a course, however, would sacrifice all the substantial benefits of production control for the dubious advantage of larger exports at exceedingly low prices. The second involves modification of the cotton loan policy through which the government has held about 5,500,000 bales of cotton off the market and guaranteed farmers a price of 12 cents a pound. Reduction of the loan rate to 10 cents would immediately cause the price to drop. The third seeks to keep domestic prices intact, but to subsidize exports. An amendment to the Agricultural Adjustment Act proposed on March 29, 1935 by the Committee on Agriculture of the House of Representatives would set aside 30 per cent of the gross customs receipts on all imports into the United States and make this sum available for export premiums on agricultural products.[39] Subsidizing exports, however, would be equivalent to dumping and might provoke reprisals by other countries. A considerable part of the American people would also be likely to disapprove any plan granting farmers another subsidy out of the public treasury. Finally, the fourth method contemplates decreasing costs of production through encouragement of improved seed selection and more efficient methods of cultivation and harvesting. Hitherto mechanization of production has been retarded by failure to develop a good cotton-picking machine, but according to recent reports such a machine has now been perfected and is expected to effect a great saving in labor costs.[40]

Additional outlets for American cotton could be opened up provided some means were found to meet the foreign exchange difficulties of such countries as Germany and Italy. If barter agreements

37. For a survey of profits and labor and raw material costs both before and after the processing tax and textile code went into effect, cf. Federal Trade Commission, *The Textile Report*, Part II, "The Cotton Textile Industry," 1935. The AAA has been only a negligible factor in the recent rise in Japanese exports of cotton goods to the United States, for imports from Japan must pay a duty equivalent to the processing tax, and Japanese as well as American mills have been affected by the higher prices of raw cotton.

39. *New York Times*, March 30, 1935.

40. Cf. Oliver Carlson, "The Revolution in Cotton," *American Mercury*, February 1935.

should be judged impracticable and inadvisable, even as temporary measures designed to break the log-jam of exchange restrictions, the alternative of hastening the conclusion of regular commercial treaties might be considered.

Modification of the loan policy and reduction of production costs would tend to stimulate demand in the United States as well as abroad. Abolition of the processing tax, which increases the cost of raw cotton by more than 35 per cent, might also aid in reviving domestic consumption of cotton goods and bring relief to the textile industry. Some other means of financing the agricultural program would then have to be found.[41] A substantial increase in domestic consumption, however, can take place only if the purchasing power of the masses is raised.

THE TOBACCO PROGRAM

Tobacco is the second most important staple of the South, although only one acre of tobacco is grown for every twenty planted to cotton. Tobacco is not as simple a product as cotton. Variations in soil and climatic conditions, and differences in methods of curing, help to account for the existence of no less than eight classes and twenty-five types.[42] A distinction may be made between domestic and export types. While normally more than 40 per cent of the entire crop is marketed abroad, two kinds of tobacco, constituting together about 32 per cent of the total production, are almost wholly consumed at home. These are the cigar leaf types, grown largely outside the South in the Connecticut Valley of New England, and in Pennsylvania, New York, Ohio and Wisconsin, and burley tobacco, which is used for cigarettes, smoking mixtures and chewing and is cultivated in Kentucky and Tennessee. The leading export class is the so-called flue-cured tobacco, the production of which centers in North Carolina. Used chiefly for cigarettes, this class has gained at the expense of other types until it now accounts for more than half of American production. Almost 60 per cent of the crop normally finds its way abroad. Next in importance ranks fire-cured tobacco, produced mostly in Kentucky and Tennessee. This class constitutes about 12 per cent of the total crop and exports represent over three-quarters of the output. Of smaller importance are the dark air-cured types and Maryland tobacco.

41. Under the Work Relief Resolution passed by Congress on April 5, 1935 the President is authorized to use relief funds instead of processing taxes in financing the agricultural adjustment program. He has announced, however, that relief appropriations will not be used for that purpose. Cf. *New York Times*, April 6, 11, 1935.

42. U. S. Department of Agriculture, Charles E. Gage, *American Tobacco Types: Uses and Markets*, Circular No. 249, January 1933.

AVERAGE ANNUAL PRODUCTION AND EXPORTS 1925-29[43]

Type	*Production (million pounds)*	*Percentage of total production*	*Exports (million pounds)*	*Percentage of production exported*
Flue-cured	668.5	50.0	381.0	57.0
Burley	270.8	20.0	9.4	3.8
Cigar leaf	162.2	11.9	1.5	.9
Fire-cured	167.4	12.0	139.4	83.2
Dark air-cured	62.5	4.5	18.6	29.7
Southern Maryland	24.4	1.8	15.5	63.7
All types	1,359.4	100.0	574.2	42.2

In the period 1929 to 1932 the farm value of the tobacco crop fell from $286,000,000 to $107,000,000. Exports suffered a decline of 33 per cent, partly as a result of increased foreign competition, fostered by trade restrictions. After the war many European countries began actively to stimulate domestic production by means of tariffs, excise duties, and especially through the institution of monopolies which were able to exercise complete control over the price and source of supply. By a system of preferential duties, for example, the proportion of Empire tobaccos consumed in the United Kingdom rose from 4 to 20 per cent in the post-war period. On the continent, Germany, France, Spain, Poland and Italy expanded their production at the expense of American tobacco. In Italy alone the domestic crop increased from 20 to 25 million pounds before the war to 117 million in 1929. Trade restrictions had probably displaced about 100 million pounds of American tobacco by 1929, and three years later the total had been enlarged by an additional 20 million pounds. Fire-cured and dark air-cured tobacco, for which the European continent is the largest market, suffered most severely from these restrictions. Flue-cured tobacco, which is sold mainly to the United Kingdom and China, remained comparatively unaffected.[44]

CURTAILMENT OF PRODUCTION

The Administration made no effort to effect a general reduction in the 1933 crop. Only for binder and filler types of cigar tobacco, the price of which stood particularly low, was a plow-up campaign similar to that for cotton carried through.[47] For other tobacco types the AAA successfully negotiated a number of marketing agreements in which manufacturers undertook to purchase fixed quantities of tobacco at definitely higher

43. Computed from figures in *Yearbook of Agriculture, 1934.* In order to make export figures roughly comparable with production totals, the former have been increased on the assumption that 10 per cent of the farmers' sales weight is lost in redrying and preparing the tobacco for export.

44. Cf. 73d Congress, 1st Session, Senate Document No. 70, *World Barriers in Relation to American Agriculture*, Chapter X.

47. Cf. *Agricultural Adjustment*, cited, p. 72-5.

prices in anticipation of the crop controls to be applied the following year. Almost at the same time the AAA launched its reduction program for 1934. Provisions of the contracts tendered to growers differed considerably according to the class and type of tobacco. All the contracts, except those pertaining to cigar tobacco, not only limited acreage, but fixed a production allotment for each farm. The rate of reduction varied: 33-1/3 or 50 per cent for burley, 30 per cent for flue-cured and dark air-cured, and 25 per cent for fire-cured and Maryland tobacco.

Although on the average about 90 per cent of the farmers agreed to participate in the AAA program, it was feared, just as in the case of cotton, that non-cooperating farmers would benefit by the resulting rise in prices and expand their production. Congress therefore passed, and the President approved on June 28, 1934, the Kerr-Smith Tobacco Act[48]—legislation similar in conception to the Bankhead cotton law. The Act levied a tax of 33-1/3 per cent on the sales price of all tobacco marketed from the 1934 crop, except the cigar, Maryland and Virginia sun-cured types. The Secretary of Agriculture was authorized to issue tax exemption warrants covering the production allotments assigned to farmers in the crop control contracts.[49]

THE RISE IN FARM INCOME

With the assistance of the AAA the farm value of the tobacco crop has almost doubled in the last two years. Average farm prices recovered to 13 cents in 1933 and soared to 22 cents the following year. The acreage harvested last year was the smallest since 1914 and, with the exception of the extremely poor year 1932, production was less than in any year since 1921. Only the high yields per acre, attributable to excellent weather conditions, kept the crop from falling much lower. The improvement was distributed unevenly among the different types of tobacco. Supplies of burley and cigar leaf continued abnormally large.[50] Of the export tobaccos, the supply position of fire-cured showed some slight improvement in 1934, and the crop brought prices double those of two years ago. The production of dark air-cured tobacco was below consumption, and prices have risen to some extent. The greatest benefits have accrued to the growers of flue-cured tobacco, the price of which rose sharply from an average of 11.5 cents during 1931-32 to no less than 27 cents in the current year. The farm value of the 1934 crop was the highest on record with the exception of the three-year period 1917-19, and gave the farmers a purchasing power as high as 47 per cent above parity.[51]

PRODUCTION AND VALUE OF TOBACCO[52]

		Production in pounds			
Year	*Acreage Harvested*	*Yield Per Acre*	*Total 1,000 lbs.*	*Price per lb.*	*Farm Value $1,000*
1929	1,987,600	773.5	1,537,313	18.6c.	$286,152
1932	1,411,200	727	1,026,091	10.5c.	107,821
1933	1,756,600	784	1,377,639	13.0c.	179,486
1934	1,335,200	821	1,095,662	22.0c.	240,937

The crop control program will be continued during 1935. Allotments for the dark air-cured and fire-cured types have been raised 14 per cent and for flue-cured tobacco 21 per cent.[54] Growers of flue-cured, who are enjoying an unprecedented degree of prosperity under the present high prices, protested vigorously against expansion of production in 1935, but were overruled by the Administration. The Kerr-Smith Act has been continued for another year, more than three-fourths of the farmers having indicated their approval of its extension.[55] Its scope has even been widened to include Virginia sun-cured tobacco and almost all the cigar filler and binder types.[56]

DANGER OF FOREIGN COMPETITION

The AAA's decision to increase the output of flue-cured tobacco was at least partly motivated by a fear that maintenance of prices well above parity would stimulate production abroad.[57] The available data do not yet permit a conclusive estimate as to the effect of the American restriction program on foreign markets. In the marketing season 1933-34 the devaluation of the dollar more

48. H.R. 9690.

49. Unlike the Bankhead law, the Kerr-Smith Act was not designed to compel farmers to cooperate in curtailing their production, but simply to deny them the benefits of the reduction program by keeping their income from exceeding the amount it would have attained without the improvement in prices effected by the AAA. To emphasize that the Act was not intended to penalize non-cooperators, Secretary Wallace exercised the authority given him to fix the tax rate at 25 per cent instead of 33-1/3 per cent. AAA Commodity Information Series, *Tobacco Leaflet No. 1*, November 1934.

50. Cf. Department of Agriculture, *The Agricultural Outlook for 1935*, p. 129.

51. Data furnished by the Tobacco Section of the AAA. Because of the great change in tobacco-consuming habits since the pre-war years the Agricultural Adjustment Act specified that the base period to be used in computing parity prices for tobacco should run from August 1919 to July 1929.

52. Department of Agriculture, *Crops and Markets*, December 1934; also *Yearbook of Agriculture, 1934*.

54. Cf. *AAA News Digest*, December 15 and 22, 1934.

55. Well over 90 per cent of the eligible acreage was voted in a referendum held in December 1934, and more than 90 per cent of the ballots favored continuation of the Act. Cf. *AAA News Digest*, January 5, 1935.

56. A referendum conducted among the growers of cigar filler and binder tobacco revealed 89 per cent in favor of applying the Act. The votes cast represented 87.4 per cent of the eligible acreage. Cf. *AAA News Digest*, March 2, 1935.

57. Cf. U.S. Department of Agriculture, J. B. Hutson, *The Flue-Cured Tobacco Adjustment for 1935* (mimeographed).

than compensated for the rise in prices. Exports of flue-cured tobacco were actually more than 60,000,000 pounds or 22 per cent larger than the year before, while foreign purchases of other export types continued to show a slight diminution. The relatively attractive prices of American tobacco and a rise in cigarette consumption led the United Kingdom to expand its imports substantially. Exports to the Far East also increased. In the current marketing season,[59] however, a marked change has taken place. By December 31, 1934 flue-cured exports were running approximately 24,000,000 pounds less than the year before, while shipments of other tobaccos were just maintaining their volume. Although the United Kingdom has continued to buy, Chinese imports have dropped off sharply. Since the war China has been the second most important market for flue-cured tobacco but, owing to the small purchasing power of the mass of cigarette smokers, any change in prices has an immediate effect on the consumption of American tobacco. The steep rise in flue-cured prices has therefore led to a rapid curtailment of imports and the substitution of native for American tobacco.[60] Chinese production increased almost steadily to 146 million pounds in 1933, but last year the harvest was slightly less. Present indications, however, point to a 1935 crop of not less than 180 million pounds.[61]

EXPORTS OF LEAF TOBACCO FROM THE UNITED STATES[62]

	Flue-cured Tobacco Types				*Other Export Types**			
	Full Season		*Season to Dec. 31*		*Full Season*		*Season to Dec. 31*	
Destination	*1932-3*	*1933-4*	*1933-4*	*1934-5*	*1932-3*	*1933-4*	*1933-4*	*1934-5*
British Isles	136,621	172,992	111,603	117,158	7,259	5,226	300	531
Cont'l Europe	19,602	32,384	16,337	11,502	80,456	76,725	22,530	22,790
Canada	7,487	7,949	4,807	4,644	336	145	24	68
China and Japan	81,341	94,781	51,941	23,305	0	24	10	46
Australia	8,693	10,841	3,855	6,915	383	362	5	6
Others	19,918	11,383	5,724	6,396	14,460	13,846	3,754	2,960
Total	269,662	330,330	194,267	169,920	102,894	96,328	26,623	26,401

*Fire-cured, dark air-cured and Maryland tobaccos.

To what extent maintenance of the present high prices for flue-cured tobacco will affect production in countries other than China is also hard to estimate. Some expansion may take place in the British Empire, especially in Canada, Southern Rhodesia, India and Australia, but the increase is unlikely to be large.[63] Production in the Balkans and Turkey will probably remain unaffected, for the Turkish types of tobacco grown there do not compete directly with American cigarette tobacco. On the whole it may be said tentatively that the danger of losing a substantial part of the foreign market as a result of the AAA program is not so great for tobacco as for cotton. The Administration's decision to expand production of flue-cured tobacco by one-fifth should serve to lower prices and thus reduce the stimulus to foreign competition.

59. For flue-cured the season begins July 1, for other types, October 1.

60. The following table reveals how the price disparity between high grades of American and Chinese flue-cured tobacco on the Chinese market has become more marked:

	1933	*1934*
American	24.3 cents	57.2 cents
Chinese	17.2	27.2
Difference	7.1 cents	30.0 cents

Cf. *Foreign Crops and Markets*, cited, January 28, 1935.

61. *Foreign Crops and Markets*, cited, January 14, 1935.

62. Department of Agriculture, *Foreign Crops and Markets*, December 10, 1934 and February 11, 1935.

63. Due to the drought, Canadian production fell from 44,870,000 pounds in 1933 to 38,120,000 in 1934. The Australian crop last year amounted to only 2,652,000 pounds compared to 8,431,000 in 1933. Southern Rhodesia harvested a record crop of 25,224,941 pounds in the spring of 1934, but production in 1935 is expected to be lower. No estimates for India are available, but this country has always produced a considerable quantity of tobacco, its exports in recent years averaging over 30,000,000 pounds. Cf. *Foreign Crops and Markets*, cited, February 11, and April 8, 1935.

REGIONAL RECONSTRUCTION

Some students of the South are not alarmed about the possibility of losing part of the foreign market for cotton and tobacco. They believe that the South has always relied too much on the production of one or two staples and has failed to utilize its natural resources in achieving a better balanced economy. The cultivation of cotton and tobacco, they point out, requires so much labor that little time is left for growing other crops. Many farmers are consequently restricted to a deficient diet of corn, pork and molasses, which has been held responsible for the prevalence of pellagra throughout the South. The fluctuating character of the income from cotton and tobacco is said, moreover, to engender a speculative spirit which discourages saving and often sinks the farmer into debt. In this way the mass of poverty-stricken tenants who already constitute 60 per cent of the farmers in the South is

being constantly increased. Finally, the tenancy system in turn is held to prevent diversification of crops, because the landlord, who derives his income only from a share of the cash crops, has no particular interest in allowing the production of milk, fruit, vegetables and meat for consumption by his tenants. A unified program directed toward the removal of tenancy and the establishment of a diversified economy is therefore advocated as the fundamental solution of the agricultural problems facing the South.[64]

Proponents of this program score the New Deal for having done little or nothing to raise the income of the white and Negro tenants who produce most of the cotton and tobacco. These tenants usually pay their rent not in cash but with a share of the crop, and the landlord furnishes the work stock, equipment, and also the credit to buy provisions, for which an interest rate as high as 25 to 30 per cent is charged. They are thus almost constantly in debt and seldom rise above a subsistence standard of living. Although an increase in their purchasing power would have created a substantial demand for clothing, the AAA has failed to improve their lot. Under the 1933 cotton contracts, for example, tenants were supposed to participate in benefit payments according to their share of the crop, but division of the payments was ordinarily left to the landlords, who in many cases took advantage of their tenants. Again in 1934 the landlord benefited out of all proportion to the tenant. The latter's compensation under the crop adjustment program was so small that his real income often proved to be lower than before.[65] Moreover, although the acreage contracts contained provisions designed to prevent landlords from effecting crop reduction simply by discharging a number of tenants, these provisions were not very clearly worded and have frequently been disregarded.[66] The number of tenant farmers forced on relief as a result of the agricultural adjustment program is generally conceded to be large.[67]

In weighing the desirability of diversification, it must be recognized that cotton and tobacco are probably the crops most suited to the climatic and soil conditions of the South, and as such likely to yield a higher cash return than any possible substitutes. Perhaps in the end it will prove possible to eradicate the evils of tenancy and establish a balanced economy without at the same time curtailing the production of either cotton or tobacco. The same quantity of cotton, for instance, could be grown on a smaller area and with less labor, provided farmers can be induced to use only the most suitable land, to plant only prime seed of high-yielding varieties, and to utilize all possibilities of mechanizing production. In this way the cash yield of cotton might actually be increased, while land and labor would be released for the cultivation of other crops, such as fruit and vegetables.[68] Local industries also might be gradually introduced into rural districts to provide a subsidiary source of income for the population.

Projects for diversification are unlikely to succeed unless the tenancy problem is tackled simultaneously, for the existence of a large number of backward, ignorant tenants constitutes a formidable obstacle to the realization of all plans for economic reconstruction. Steps looking toward the gradual abolition of tenancy have recently been taken. The Work Relief Resolution passed by Congress on April 5, 1935 authorizes the President to use the funds appropriated therein "for the purpose of making loans to finance in whole or in part the purchase of farm lands and necessary equipment by farmers, farm tenants, croppers or farm laborers"; and a bill introduced by Senator John H. Bankhead of Alabama would establish a Farm Tenant Homes Corporation for much the same purpose.[69]

Any transformation in the economic life of the South is bound to take place very slowly. For an indefinite time southern prosperity will remain almost wholly dependent on cotton and tobacco. Maintenance of the export markets for these two commodities will therefore continue to be of vital importance to the United States.

64. Cf. R. B. Vance, *Regional Reconstruction: A Way Out for the South* (Chapel Hill, University of North Carolina Press and Foreign Policy Association, 1935).

65. Dr. Calvin B. Hoover, who investigated the effect of the AAA on the tenant problem for the Department of Agriculture, concluded that the tenant had actually benefited to some extent under the AAA. His calculations assumed, however, that the farm price of cotton would have remained at 5 cents without government intervention—a rather dubious assumption which credits the AAA with the entire responsibility for the rise in prices. Cf. U. S. Department of Agriculture, *Human Problems in Acreage Reduction in the South* (mimeographed).

66. Cf. Paul W. Bruton, "Cotton Acreage Reduction and the Tenant Farmer," *Law and Contemporary Problems,* June 1934.

67. In December 1934 there were said to be on Texas relief rolls alone at least 118,000 families of "recent farming experience." Cf. *Texas Weekly,* December 22, 1934, p. 6.

68. Cf. R. B. Vance, *Human Geography of the South* (Chapel Hill, University of North Carolina Press, 1932), p. 495-6.

69. 74th Congress, 1st Session, S. 1800.